



Iowa General Assembly

Public Retirement Systems Committee Briefings

Legislative Services Agency – Legal Services Division

PUBLIC RETIREMENT SYSTEMS COMMITTEE BRIEFINGS

Meeting Dates: [December 9-10, 2015](#)

Purpose. *This compilation of briefings on legislative interim committee meetings and other meetings and topics of interest to the Iowa General Assembly, written by the Legal Services Division staff of the nonpartisan Legislative Services Agency, describes committee activities or topics. The briefings were originally distributed in the Iowa Legislative Interim Calendar and Briefing. Official minutes, reports, and other detailed information concerning the committee or topic addressed by a briefing can be obtained from the committee's Internet page listed above, from the Iowa General Assembly's Internet page at <https://www.legis.iowa.gov/>, or from the agency connected with the meeting or topic described.*

PUBLIC RETIREMENT SYSTEMS COMMITTEE

December 9-10, 2015

Co-chairperson: Senator Thomas G. Courtney

Co-chairperson: Representative Dawn Pettengill

Overview. The Public Retirement Systems Committee received testimony from various organizations and individuals concerned with deferred compensation programs for certain state and school employees, the Municipal Fire and Police Retirement System, the Iowa Public Employees' Retirement System, the Peace Officers' Retirement System, and the Judicial Retirement System.

Pension Retirement Systems Review. Mr. Ed Cook, Senior Legal Counsel, Legislative Services Agency (LSA), reviewed information provided on the committee Internet site, a new Internet site being developed by LSA for public pension information, the public retirement systems that are the focus of the committee, and the important role legislators play relative to the public retirement systems in the state. Mr. Cook noted pending pension legislation and discussed key retirement concepts such as retirement benefit adequacy and funding policy.

DEFERRED COMPENSATION PROGRAMS

Department of Administrative Services (DAS). Ms. Janet Phipps, Director, DAS, discussed the supplemental deferred compensation programs operated by DAS collectively called the Retirement Investors' Club (RIC). The programs are differentiated by the three applicable Internal Revenue Code sections describing public employee deferred compensation programs: sections 457, 401(a), and 403(b). The DAS programs provide plan administration and compliance and are the governmental employee programs similar to private sector section 401(k) plans. The section 457 program

is available to primarily state employees, includes an employer match component (section 401(a)), and is utilized by about 56 percent of eligible employees. The state's section 403(b) program, which covers primarily educational employees, was established in 2009, allows educational employers and their employees the ability to utilize the program to provide this option, and is utilized by about 15,000 participants. The initial state section 403(b) program was started through a request for proposals (RFPs) process and will continue through December 2015. Beginning January 2016, the investment providers available for the sections 457, 401(a), and 403(b) programs will change. Pursuant to an RFP process, four core providers were selected for all programs pursuant to certain requirements relating to fees and other service and performance metrics. In addition, DAS used an invitation to qualify (ITQ) process to allow other optional providers for the section 403(b) program. If a prospective vendor met certain minimum requirements, the vendor was added to the optional provider list. Five providers are included on the optional provider list and are available to all section 403(b) employers to select as a part of their plan when completing a RIC adoption agreement.

National Association of Insurance and Financial Advisors (NAIFA). Mr. Greg Johnson, Iowa President, NAIFA, and Mr. Richard Dobson, Former Iowa Officer, NAIFA, addressed the committee concerning the state's section 403(b) program. The 2009 change in how section 403(b) programs were made available to teachers in the state was detrimental to the goal of encouraging both younger and older employees to participate in a section 403(b)-type program.

Financial advisors are important in educating employees about the benefits of retirement savings and the new DAS optional section 403(b) provider program should allow more financial advisors the opportunity to educate employees and increase employee participation in the state's section 403(b) plan.

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA (MFPRSI).

MFPRSI Staff. Mr. Terry Slattery, Executive Director, MFPRSI, and Mr. Glen Gahan, Actuary, Silverstone Group, provided background information concerning the retirement system. Mr. Slattery noted that the mission of the system is to provide a comprehensive set of retirement and disability benefits to eligible local police officers and fire fighters in a sound, sustainable, and efficient manner, in accordance with the requirements of the program's governing statute. The vision statement for the system provides additional background on the mission goals of providing a comprehensive, efficient, sound, and sustainable retirement system. Mr. Slattery reviewed the current investment allocation policy and noted that the plan performance expectation for the system is 7.6 percent. Mr. Gahan discussed the financial condition of the system and noted that the system has adopted a funding policy with the goal of fully funding the system over a 25-year period using a steady contribution rate. In meeting this goal, Mr. Gahan noted that the system has changed the method of amortizing the system's unfunded liability by moving to a 25-year closed, layered, level-dollar, amortization schedule. In the last few years, the funded ratio of the system has improved from 74 percent to 81 percent while the city's contribution rate has been reduced from 30.41 percent for FY 2015, to 25.92 percent for FY 2017. Mr. Gahan discussed the system's blended mortality table and noted that it has matched the system's current mortality experience. Mr. Gahan discussed future trends in the actuarial contribution rate to be paid by cities and the system's funded ratio over the next 25 years using current assumptions. By the end of the 25 year period, the system would be over 99 percent funded and the city contribution rate would decrease to the required minimum city contribution rate of 17 percent.

Iowa League of Cities. Mr. Dustin Miller, General Counsel, Iowa League of Cities, addressed the committee and commented that pension issues concerning the MFPRSI are a priority issue for the League. Mr. Miller noted that police and fire employees are valued to cities and a quality pension system is critical for attracting quality individuals to these positions. While noting that MFPRSI is a well-run pension system, Mr. Miller cited several cost concerns for cities. Currently, any variability in the cost of the system is borne entirely by the cities and the state has not provided any supplemental cost assistance since 2013. In addition, five participating cities in MFPRSI are contributing to both MFPRSI and to Social Security. Mr. Miller stated that city costs for providing short-term disability and on-duty injury medical coverage are significant and an issue in need of further study. Additionally, Mr. Miller noted that recent accounting standard reporting changes are requiring cities to recognize pension liabilities for their financial reports. Mr. Miller expressed the hope that both the cities and employee members can agree on the need for a quality and sustainable retirement system, that the state should fulfill its initial promise of providing a contribution of 3.79 percent, and that additional research needs to be conducted concerning medical costs.

Iowa Professional Fire Fighters and Iowa State Police Association. Mr. Doug Neys, President, Iowa Professional Fire Fighters, and Mr. Zach Lewis, President, Iowa State Police Association, addressed the committee. The associations believe that the system is working as designed, is managed well, and is sustainable without any changes. The associations appreciate the fact that the system was allowed to work as designed after the financial crisis without any significant changes. While Mr. Neys noted that health and safety issues are always a concern for fire fighters, neither association is recommending any changes to the system. The associations did request that the state restore its funding partnership with the system, noting that the services provided by police officers and fire fighters covered by MFPRSI provide a benefit to the entire state.

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS)

IPERS Staff. Ms. Donna Mueller, Chief Executive Officer, and Ms. Patrice Beckham, Consulting Actuary, provided an overview of the retirement system, focusing primarily on the June 30, 2015, actuarial valuation of the system. Ms. Mueller noted that the mission and vision for IPERS is to provide and administer a sustainable and affordable retirement plan that provides lifetime pension payments to public employees and which serves to attract and retain a quality workforce. Ms. Beckham noted that IPERS funding policy establishes a goal of 100 percent funding for each of the three membership groups in IPERS. To reach this goal, IPERS has moved to a closed 30-year amortization period for the initial unfunded liability of each membership group with any new changes in expected unfunded actuarial liability to be amortized over a 20 year period. In addition, the funding policy provides that the contribution rate for any of the membership groups will not decline until that group within IPERS reaches 95 percent funding. Based on the June 30, 2015, actuarial valuation, the funded status of the entire system based upon the actuarial value of assets has increased to 83.7 percent. The total contribution rate for the regular membership classification will remain at 14.88 percent of pay, payable on a 60-40 employer and employee basis, resulting in an additional contribution to the fund above the actuarially required contribution of .71 percentage points. For members of the sheriffs and deputies classification, the total contribution rate will be reduced from 19.76 percent of pay to 19.26 percent, payable on a 50-50 employer and employee basis, still resulting in an additional contribution to the fund above the actuarially required contribution of 1.76 percentage points. For members of the protection occupation classification, the total contribution rate will be 16.40 percent of pay, payable on a 60-40 employer and employee basis, resulting in an additional contribution to the fund above the actuarially required

contribution of .39 percentage points. Ms. Beckham discussed the development of the discount rate for IPERS, differences between corporate and public pension requirements, mortality table development, and the differences between financial reporting and funding of pensions. In summary, Ms. Beckham noted that prior positive investment returns and the contribution rate funding policy indicate a positive trend in the funded ratio of the system if all other assumptions are met. For the 2016 Legislative Session, Ms. Mueller noted that IPERS is not proposing any changes.

IPERS Investment Board. Mr. David O. Creighton, Sr., Chairperson, and Mr. Karl Koch, Chief Investment Officer, addressed the committee relative to the role of the investment board and IPERS investments. Mr. Creighton noted the fiduciary responsibility of the board as a trustee of the IPERS fund and its role in setting and reviewing investment policy and actuarial assumptions. Mr. Koch noted that IPERS remains a well-diversified portfolio with an increasing effort in managing risk. Mr. Koch discussed the asset allocation of the IPERS portfolio, commented on the real estate asset class, and discussed the manner in which private equity investments are made and the fees associated with this form of investment. Mr. Koch also noted that IPERS has now recovered over 96 percent of the principal initially lost in the Westridge Capital Management fraud case. Ms. Mueller noted that over the next year, the investment board will be exploring alternative compensation models for hiring and retaining good investment managers within IPERS.

IPERS Benefit Advisory Committee (BAC). Mr. Len Cockman, Chair, and Mr. Brad Hudson, Vice Chair, addressed the committee. The goal of membership groups represented on the BAC is the long-term viability of the IPERS trust fund. In 2010, members responded to financial challenges facing the system by supporting legislation reducing benefits for all members and increasing contribution rates. The one weakness of IPERS is that the system does not provide any inflation protection for retirees. The BAC has decided to study the issue of providing some form of inflation protection, like a COLA, and to identify costs and plausible solutions that may be recommended once IPERS begins to reach fully funded status.

PEACE OFFICERS' RETIREMENT SYSTEM (PORS)

PORS Staff. Ms. Charis Paulson, PORS Director of Administrative Services, and Ms. Beckham provided background on the system. Based upon the July 1, 2015, actuarial valuation of the system, the funded status of the system based upon the actuarial value of assets improved to 74 percent after having been only 61 percent on June 30, 2012. Due to an increasing employer contribution rate and the \$5 million standing supplemental state appropriation to the fund, total contributions to the fund will exceed the actuarially required contribution by 7.76 percentage points as of July 1, 2015. Longterm, the impact of the changes to the system during the 2010 Legislative Session in benefits and contributions and the payment of contributions above the actuarially required rate will result in the funded status of the system improving to about 85 percent by the year 2019 and 100 percent by 2029, assuming all other assumptions are met. In response to committee questions, the presenters noted that the Treasurer of State's office, in coordination with a newly hired investment consultant, is undergoing an asset/liability study to examine the asset allocation of the system and whether the current 8 percent investment return assumption needs to be changed.

State Police Officers Council (SPOC) and Iowa State Patrol Supervisors Association (ISPSA). Ms. Sue Brown, SPOC, and Sergeant Marland Winter, ISPSA, expressed appreciation for the legislative changes made in 2010 that have improved the financial viability of the system. Members covered by PORS do not receive Social Security and rely on the pension system upon retirement. Both presenters noted concern with the current number of active trooper members and the impact this has on public safety.

JUDICIAL RETIREMENT SYSTEM

Ms. Peggy Sullivan, Director of Finance and Personnel, Judicial Branch, and Ms. Beckham provided background on the retirement system, which covers all full-time judges and other judicial officers. Ms. Sullivan noted that the Judicial Retirement System is referenced in the Iowa State Constitution and is administered by the State Court Administrator. The Treasurer of state is responsible for investing the assets of the retirement fund. Ms. Beckham then discussed the July 1, 2015, actuarial valuation of the system. The funded status of the system based upon the actuarial value of assets has made considerable improvement in the last five years, improving to 84 percent on July 1, 2015, from 78 percent in the prior fiscal year. As a result, the fixed statutory contribution rate now exceeds the actuarially required rate which should assist in further improving the funded status of the system. Assuming all assumptions are met, the system should be fully funded by July 1, 2022.

Committee Discussion. The committee did not adopt any formal recommendations. Committee members did agree that further study should be conducted on the issue raised by the Iowa League of Cities concerning medical costs incurred by cities within MFPRSI and that additional educational presentations on pension topics be scheduled.

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Agenda: To be announced.

Internet Site: <https://www.legis.iowa.gov/committees/committee?endYear=2015&groupID=655>